FOREIGN POLICY REPORTS

Austria:

The Paralysis of a Nation

January 4, 1933
Vol. VIII, No. 22

Published Fortnightly by the
FOREIGN POLICY ASSOCIATION
INCORPORATED
EIGHTEEN EAST FORTY-FIRST STREET
NEW YORK, N.Y.

AUSTRIA: THE PARALYSIS OF A NATION

by

VERA MICHELES DEAN

with the aid of the Research Staff of the Foreign Policy Association

This report is based on a study which the author made in Austria last summer under a grant from the Oberlaender Trust of the Carl Schurz Memorial Foundation.

The world crisis, like an epidemic, has struck most severely where it has encountered least resistance. Nowhere in Europe, perhaps, have its ravages been more serious than in Austria, whose economic system, shattered by the peace settlement and only indirectly benefited by the post-war boom, has suffered gradual paralysis since 1928. Nor has Austria's plight failed to affect its neighbors. For Austria, despite its shrunken resources, remains the nerve-center of the Danubian region, as was clearly demonstrated in May 1931 when the collapse of the Vienna Creditanstalt precipitated a financial crisis in the Succession States, and had grave repercussions in Germany. Until workable remedies are found for Austria's difficulties, Central and Eastern Europe cannot hope to regain even a measure of economic stability.

When Austria, despairing of international assistance, attempted to improve its situation by signing the Vienna protocol of March 19, 1931 which provided for a customs union with Germany, France and the Little Entente vigorously protested on the ground that the protocol constituted a violation of the *status quo* and a step toward *Anschluss*.[1] Following prolonged negotiations between European chancelleries, the League Council, by a resolution adopted on May 19, requested the Permanent Court of International Justice to give an advisory opinion on the question whether the proposed customs union was compatible with Article 88 of the treaty of Saint-Germain and the Geneva Protocol No. I of October 4, 1922.[2]

In an advisory opinion delivered on September 5, 1931 the Court, by eight votes to seven, declared that, while the Vienna protocol did not constitute an act alienating Austria's independence and was not, perhaps, inconsistent with Article 88 of the treaty of Saint-Germain, it was calculated to threaten the country's economic independence and was consequently incompatible with the Geneva protocol of 1922.[3] In a dissenting opinion the seven other judges held that the Geneva protocol imposed on Austria no new obligations distinct from those of the treaty of Saint-Germain, and that if the Vienna instrument was compatible with that treaty, it could not be incompatible with the Geneva protocol.[4] The fact that the Court divided along political lines—judges from France, Italy, the Little Entente and Latin America voting against the Vienna protocol, while judges from countries which had no direct interest in the dispute voted in its favor—was criticized in many quarters as indicating a regrettable, if not unnatural, susceptibility of the Court to national influences.

The Austrian government, however, had already discounted the effect of the majority opinion. At a meeting of the Commission of Enquiry for European Union on Septem-

1. For a discussion of the terms of the Vienna protocol and of the protests which it aroused, cf. Vera M. Dean, "European Efforts for Economic Collaboration," *Foreign Policy Reports*, Vol. VII, No. 12, August 19, 1931. The term *Anschluss* is used to describe political union between Germany and Austria.

2. Article 88 of the treaty of Saint-Germain reads as follows: "The independence of Austria is inalienable otherwise than with the consent of the Council of the League of Nations. Consequently Austria undertakes in the absence of the consent of said Council to abstain from any act which might directly or indirectly or by any means whatever compromise her independence, particularly, and until her admission to membership of the League of Nations, by participation in the affairs of another Power."

The Geneva Protocol No. I—one of three instruments signed on October 4, 1922 which provided for the financial reconstruction of Austria under the auspices of the League of Nations—contained the following provision: Austria "undertakes, in accordance with the terms of Article 88 of the Treaty of Saint-Germain, not to alienate its independence; it will abstain from any negotiations or from any economic or financial engagement calculated directly or indirectly to compromise this independence. This undertaking shall not prevent Austria from maintaining, subject to the provisions of the Treaty of Saint-Germain, her freedom in the matter of customs tariffs and commercial or financial agreements, and in general, in all matters relating to her economic régime or her commercial relations, provided always that she shall not violate her economic independence by granting to any State a special régime or exclusive advantages calculated to threaten this independence." League of Nations, *The Financial Reconstruction of Austria, General Survey and Principal Documents* (Geneva, 1926), p. 137.

3. Permanent Court of International Justice, *Customs Régime between Germany and Austria (Protocol of March 19, 1931)*, Series A/B, No. 41, Advisory Opinion, September 5, 1931, p. 62.

4. *Ibid.*, p. 74.

FOREIGN POLICY REPORTS, VOL. VIII, NO. 22, JANUARY 4, 1933

Published by-weekly by the FOREIGN POLICY ASSOCIATION, Incorporated, 18 East 41st Street, New York, N. Y., U. S. A. JAMES G. MCDONALD, *Chairman;* RAYMOND LESLIE BUELL, *Research Director and Editor;* WILLIAM T. STONE, *Washington Representative;* HELEN TERRY, *Assistant Editor;* ELIZABETH BATTERHAM, *Secretary of the Research Department. Research Associates:* T. A. BISSON, VERA MICHELES DEAN, MABEL S. INGALLS, HELEN H. MOORHEAD, ONA K. D. RINGWOOD, MAXWELL S. STEWART, M. S. WERTHEIMER, JOHN C. DEWILDE, WILBUR L. WILLIAMS. Subscription Rates: $5.00 a year; to F. P. A. members $3.00; single copies 25 cents. Entered as second-class matter on March 31, 1931 at the post office at New York, N. Y., under the Act of March 3, 1879.

ber 3 Dr. Schober, the Austrian Foreign Minister, declared that his government had realized "from the events of the past few months" that "the application of the proposed customs union might raise obstacles to confident cooperation between European states" and that, under the circumstances, it did not intend to pursue this project. Dr. Schober, however, stressed Austria's economic plight, and made a strong plea for European cooperation which, he said, "must now become a reality" and achieve positive results, adding that Austria would give "loyal and serious consideration" to any proposal for concerted action.[5]

That Austria would once more be forced to seek international assistance had already been indicated by a note which it addressed to the Secretary-General of the League of Nations on August 7, 1931, requesting the League Council to examine its economic and financial difficulties. The Council, on September 4, transmitted this request to the League Financial Committee which conferred with leading Austrian and League officials, and with its own representative, M. Rost van Tonningen, who had meanwhile visited Vienna. Following these discussions Karl Buresch, the Austrian Chancellor, submitted a program of reforms which his government was ready to undertake with respect to readjustment of the budget, reorganization of the Federal Railways, and settlement of the difficulties of the Creditanstalt, provided it could obtain financial aid. The Financial Committee, when referring this program to the Council, pointed out that credits totaling 250,000,000 schillings were essential for the reconstruction of Austrian finances.[6] Of the credits which the Committee had urged for Austria, 190,000,000 schillings had already been secured in the form of a 100,000,000-schilling credit granted by the Bank of England in May, following the collapse of the Creditanstalt, and a 90,000,000-schilling credit extended by the Bank for International Settlements in September, leaving a balance of 60,000,000 schillings. In a report presented to the Council in March 1932, however, the Financial Comittee described Austria's situation as "urgent," and strongly recommended the extension of credits totaling 100,000,000 schillings.[7]

THE TARDIEU PLAN FOR A DANUBIAN UNION

It was generally recognized that France, alone of the European countries, was in a position to grant these credits, and speculation was rife in Austria regarding the political terms which the French government might exact in return for financial assistance. France, however, contemplated a different solution of Austria's problems. In a note of March 2 addressed to Great Britain, Germany and Italy, the Tardieu government suggested that Austria, Hungary, Czechoslovakia, Rumania and Yugoslavia should form a Danubian union based on a system of preferential agreements and import quotas.[8] The French project caused profound apprehension both in Berlin and Vienna, where it was viewed as a political scheme designed to detach Austria from Germany, and subject it to French financial control. At the four-power conference summoned by Great Britain in London on April 5 to consider the plight of the Danubian countries, Germany insisted that it should be admitted to the proposed union—a position in which it was supported by Italy.[9] The conflict of interests proved insurmountable, and the London conference closed on April 8 without reaching any solution.

When the League Council met on May 19 the Tardieu government, which had recently been defeated at the polls by the Left parties, appeared more willing to consider some form of aid for Austria, but continued to argue that such aid should be linked to a general scheme of Danubian rehabilitation.[10] Failing to obtain either financial assistance or new outlets for its exports, Austria declared a transfer moratorium on July 15. On the same day the League Council approved the Lausanne protocol by which France, Great Britain, Italy, Czechoslovakia, Belgium, Holland and Switzerland, recognizing Austria's financial dilemma, agreed to guarantee a twenty-year loan of 300,000,000 schillings.[11]

Further hope of assistance was held out by a special committee appointed by the Lausanne conference on July 9,[12] which met at Stresa on September 5-20 to consider measures which might overcome transfer difficulties in Central and Eastern Europe, revive trade in that region, and alleviate the crisis suffered by the agrarian countries. This committee, however, was concerned pri-

---

5. League of Nations, Commission of Enquiry for European Union, *Minutes of the Fourth Session of the Commission, September 3 to 5, 1931.* C.681.M.287., Geneva, October 30, 1931, p. 8. A similar statement was made by the German Foreign Minister, Dr. Curtius.

6. League of Nations, Financial Committee, *Report to the Council.* A.55(b)., Geneva, September 19, 1931, p. 4.

At par the Austrian schilling is worth 14.07 cents, and is officially so quoted by the Austrian government. On foreign markets, in private Austrian clearings and on the "black bourse" in Vienna, however, the schilling has been quoted during the past year at a rate between 20 and 25 per cent higher than par. Cf. p. 260.

7. League of Nations, Financial Committee, *Report of the Council on the Work of the Forty-fifth Session of the Committee (Paris, March 3 to 24, 1932),* C.328.M.199., Geneva, March 29, 1932, p. 8.

8. *L'Europe Nouvelle,* April 2, 1932, p. 445.

9. *New York Times,* April 7, 1932.

10. *Ibid.,* May 22, 1932.

11. For a discussion of the Lausanne loan, cf. p. 262.

12. *Final Act of the Lousanne Conference, Lausanne, July 9, 1932* (London, H. M. Stationery Office, Cmd. 4126), Misc. No. 7 (1932); resolution relating to Central and Eastern Europe, p. 14.

marily with agrarian problems, and devoted most of its time to consideration of preferences for agricultural products and the creation of a fund for the "revalorization" of cereals. In closing, the committee declared that "the particularly important problem of Austria, whose exports are not mainly agricultural and who has to cope with particularly serious marketing difficulties," would form the subject of subsequent discussions.[13]

AUSTRIA'S ECONOMIC PROBLEMS

The difficulties which Austria has experienced since it became an independent state may be traced in part to certain weaknesses inherent in its economic system, and in part to obstacles encountered on world markets. Austria, which once occupied a privileged position in the Hapsburg empire, where it enjoyed a free-trade market for its luxury goods, receiving in return Czech raw materials and Hungarian agricultural products, soon discovered that its exports, blocked by the tariffs of the Succession States, were insufficient to pay for imports of food, coal and other necessities. These chronic difficulties which the government, with League assistance, attempted to meet by foreign borrowing, made Austria particularly vulnerable to the effects of the world crisis, which practically throttled its foreign trade and completely disorganized its finances.

One of Austria's most serious problems is that, while over 40 per cent of its population is engaged in agriculture, it must continue to import large quantities of basic foodstuffs. Despite government subsidies and increasing resort to agrarian protectionism, agriculture furnishes only 44 per cent of the corn, 46 per cent of the wheat, 60 per cent of the sugar, 80 per cent of the rye and a relatively small percentage of the meat required by the country. Practically the only products in which Austria has achieved self-sufficiency are milk and potatoes, both of which have begun to be exported.[14] Of Austria's total agricultural imports, nearly 50 per cent have been supplied since the war by the Succession States.[15]

Immediately after the war Austria was inclined to foster industry at the expense of agriculture, and placed relatively few restrictions on imports, in the hope that the Succession States would reciprocate by admitting its manufactured goods. The high tariffs erected by its neighbors, however, and the increasing demand of Austrian agriculture for protection against foreign competition, caused gradual abandonment of this policy. The decline of agricultural prices which began in 1929 and which, while improving Austria's position as an importer of foodstuffs, reacted disastrously on Austrian farming, strengthened the movement for agrarian protectionism. The expiration in June 1931 of the Austro-Yugoslav commercial treaty of 1925, whose comparatively liberal provisions had been extended to other countries by the most-favored-nation clause, furnished an opportunity for drastic upward revision of duties on agricultural products, notably grain, flour and lard.[16]

Confronted by a rapid decline in exports, Austria on April 30, 1932 prohibited the importation without special authorization of a number of agricultural products, including cattle, pigs, calves, poultry, meat and sausages, oranges and luxury fruits, wines, butter, cheese and condensed milk.[17] These prohibitions, which were designed both to conserve the country's reserves of foreign exchange and to retaliate for the rising tariffs of the Succession States, struck a heavy blow at Hungary, Yugoslavia and Rumania which had continued to regard Austria as their principal market. The situation was not improved by the expiration in June of the Austro-Hungarian commercial treaty concluded in 1926. A temporary prolongation of this treaty was allowed to run out on July 15, when Austria issued additional import prohibitions covering flour, fresh vegetables, preserves and many kinds of fruits.[18] As a result, Hungary's perishable foodstuffs were barred from Austria at the height of the farming season, and the Viennese consumer was forced to pay high prices for domestic produce of indifferent quality. A new commercial treaty between the two countries finally came into force on January 1, 1933.

The import restrictions introduced during the past year have served to maintain Austrian agricultural prices at levels generally higher than those of neighboring countries. The benefit of these prices, however, has been reaped largely by the middleman and not by the peasant, whose earnings are often barely

13. League of Nations, Commission of Enquiry for European Union, *Report by the Stresa Conference for the Economic Restoration of Central and Eastern Europe.* C.666.M.321., Geneva, September 24, 1932, p. 21.

14. Dr. Engelbert Dollfuss, "Austria," League of Nations, Economic Committee, *The Agricultural Crisis* (Geneva, 1931), Vol. I, p. 91; Oesterreichisches Kuratorium für Wirtschaftlichkeit, *Entwicklung und Rationalisierung der Oesterreichischen Landwirtschaft* (Vienna, Agrarverlag, 1931), p. 113.

15. Leo Gerstner and Ekkehard Hauer, *Das Krisenproblem Oesterreichs* (Vienna, Verlag von Carl Gerold's Sohn, 1932), p. 27.

16. *The Economist* (London), July 25, 1931, p. 175; United States Department of Commerce, *Commerce Reports,* August 3, 1931, p. 312.

17. League of Nations, *Financial Position of Austria in the Second Quarter of 1932.* Third Quarterly Report by M. Rost van Tonningen, Representative in Austria of the League Financial Committee. C.568.M.278., Geneva, August 15, 1932, p. 19-20.

18. *Ibid.,* p. 21; *The Economist* (London), July 23, 1932, p. 173.

sufficient to pay his taxes. The resentment aroused in 1931 by seizures of cattle and other farming property in payment of taxation or mortgage arrears called attention to the plight of the village,[19] and the authorities have since been reluctant to press for collection of peasant debts. Agricultural prices, moreover, even with the protection of tariffs and import prohibitions, have declined more rapidly than industrial prices, with the result that the farmer has been obliged to curtail, or even discontinue, his purchases of manufactured goods.

THE CRISIS IN INDUSTRY

This shrinkage in domestic purchasing capacity has proved disastrous for Austrian industry, which had never become completely adjusted to the loss of the vast free trade market it had enjoyed in the Hapsburg empire. In its struggle for existence Austrian industry is handicapped both by its character and its high cost of production. Austria has always specialized in the manufacture of luxury articles—clothing, porcelain, leather goods — which do not lend themselves easily to standardized production and find no ready purchasers in a period of depression. The prohibition in 1932 of many imports which compete with domestic products, such as motor-cars, shoes, cotton textiles and coal, temporarily improved the condition of these industries in Austria,[20] but the gain cannot be regarded as permanent. Protectionism, moreover, is a double-edged weapon for Austrian industry, which must continue to import its principal raw materials.

Various factors have made it difficult for industry to reduce its cost of production to a level at which it could compete successfully with Germany or Czechoslovakia. Chief among these are the relative inefficiency of labor, mounting taxes necessitated by increased public expenditure, and the rising cost of social insurance, which now forms an integral part of Austrian economy. It is estimated that during the period 1925-1929 average wages increased by 24 per cent, and the cost of social benefits rose from 258,000,000 to 383,000,000 schillings, of which nearly 200,000,000 were paid by employers. The rise of wages and social benefits was reflected in the cost of industrial production, which increased by 12.5 per cent during the same period. Competent observers believe that, under these circumstances, Austrian industry was on the whole operating at a loss even before it had experienced the impact of the world crisis.

The principal difficulty faced by industry, however, is lack of capital. The public has never shown much interest in industrial investments, and nearly all industries have consequently been financed by a few banks, of which the Creditanstalt was the most important. Following its merger in 1929 with the Boden-Creditanstalt, an institution then on the point of collapse, the Creditanstalt acquired control of over 60 per cent of the country's industry. The magnitude and variety of these enterprises made it well-nigh impossible for the Creditanstalt directors to obtain more than a superficial knowledge of the affairs which they financed. Moreover, fearing that the breakdown of any one of their undertakings might react unfavorably on the bank's credit, the directors frequently continued to finance economically unsound plants which would otherwise have gone to the wall. The eagerness of foreign bankers, especially British and American, to invest money in Austria without thorough investigation also proved demoralizing, as the Creditanstalt found it difficult to resist its clients' demands for foreign credits when these were so easily available. Industrial managers, meanwhile, knowing that credits would not be refused, made little effort to modernize their plants or adjust them to restricted markets. Weakened by its heavy commitments to industry and by financial mismanagement, the Creditanstalt was forced to close its doors in May 1931, when the depreciation of domestic securities, resulting from the world crisis, and the withdrawal of many foreign short-term credits which followed the announcement of an Austro-German customs union drastically reduced its assets.

The government, fearing that the collapse of the principal Austrian bank would provoke panic at home and abroad, guaranteed practically all the liabilities of the Creditanstalt, totaling 1,400,000,000 schillings, including the claims of foreign creditors which amounted to 420,000,000.[22] As a result of pressure by foreign creditors, the reorganization of the Creditanstalt was entrusted to Dr. van Hengel, former managing director of the Amsterdam Bank who, after acting as adviser from May to September 1931, was appointed general manager in February 1932. Dr. van Hengel at first proposed to release the Creditanstalt from all obligations by converting its total debt to foreign creditors and the major portion of its indebtedness to the National Bank into a state debt to be repaid over a period of years. The government, however, declared that such a measure would wreck the budget, and refused to shoulder this

19. *The Economist* (London), November 14, 1931, p. 908.

20. League of Nations, *Financial Position of Austria in the Last Quarter of 1931,* First Quarterly Report by M. Rost van Tonningen, C.34.M.18., Geneva, January 12, 1932, p. 11.

22. The claims of foreign creditors originally totaled about 500,000,000 schillings, but were reduced to 420,000,000 schillings by the fall of the pound sterling. "Der Creditanstalts-Plan," *Frankfurter Zeitung,* November 30, 1932.

burden.[23] Prolonged negotiations with the foreign creditors of the Creditanstalt were finally concluded in November 1932, when the following settlement was reached: of the 420,000,000 schillings owed the creditors, 70,000,000 were written off; 140,000,000 will be refunded out of Creditanstalt assets abroad, which will be taken over by a neutral holding company; 70,000,000 will be covered by shares of the Creditanstalt when it has been reorganized;[24] and 140,000,000 will be paid by the Austrian government in seven annuities of 20,000,000 schillings each.[25] This settlement is regarded by impartial observers as extremely favorable to Austria, and should facilitate financial readjustment.

The difficulties of the Creditanstalt have had serious repercussions on both industry and banking. Pending reorganization of the bank, the industries which it formerly controlled, including such important enterprises as the Steyr motor works and the Danube Shipping Company, must literally live from hand to mouth, since no further credits are available. Dr. van Hengel has urged the liquidation of all unproductive or uneconomically managed plants, and complete reorganization of others. This policy, however, is opposed both by the government, which fears further loss of confidence, and the Social Democrats, who object to the extensive dismissal of workers.

The position of Vienna's other banks has also been shaken by the withdrawal of deposits and foreign short-term credits which followed the breakdown of the Creditanstalt. Despite their handicaps, the Viennese banks —the Creditanstalt excepted—have succeeded in repaying 70 per cent of the 420,000,000 schillings which together they owed foreign creditors.

AUSTRIA'S DEPENDENCE ON FOREIGN TRADE

It is doubtful that the country's economic situation can show tangible improvement without a revival of foreign trade which, in turn, must wait on European recovery. Of Austria's total exports, 35 per cent normally go to the Danubian countries, whose purchasing capacity has been drastically curtailed by the decline in agricultural prices, and 18 per cent to Germany, whose credit situation has been severely affected by the financial crisis.[27] Austrian exports, moreover, have been practically throttled by the import prohibitions and foreign exchange restrictions now in force throughout Central and Eastern Europe, declining by almost one-half during the first six months of 1932 as compared with the same period in 1931. Imports, nevertheless, declined more rapidly than exports, with the result that Austria enjoyed a more favorable balance of trade than in the previous year. This balance, however, was achieved at the expense of the country's standard of living, and was due largely to the introduction of import prohibitions and foreign exchange restrictions.[28]

Of these two measures, the second was probably the most effective in limiting imports.[29] Fearing the loss of its already depleted reserves of foreign exchange, which had declined from $89,200,000 at the beginning of 1931 to $28,300,000 by October of that year,[30] the Austrian government introduced stringent foreign exchange regulations in the autumn of 1931.[31] These regulations provided, in substance, that the Austrian National Bank alone could buy and sell foreign exchange. Payment for all exports was to be made, not in Austrian schillings, but in foreign currency, and every exporter was to turn a portion of this currency—at one time 25 per cent—over to the National Bank, receiving in return schillings at the official rate, which was from 20 to 25 per cent lower than that quoted on foreign markets or the illegal "black bourse" in Vienna.[32] Similarly every importer who, by the exchange restrictions of neighboring countries is obliged to pay foreign currency for his imports, was to apply to the National Bank for the necessary exchange. The bank, however, granted only a small percentage of the importers' demands, and until July 1932, when Austria declared a transfer moratorium, used its foreign exchange chiefly for service on foreign loans.[33]

---

23. League of Nations, *Financial Position of Austria in the First Quarter of 1932*, Second Quarterly Report by M. Rost van Tonningen, C.388.M.218., Geneva, May 2, 1932, p. 7; *ibid.*, *Financial Position of Austria in the Second Quarter of 1932*, cited, p. 8; *The Economist* (London), current issues; "Ein Verfassungskonflikt um die Credit-Anstalt," *Der deutsche Volkswirt*, October 7, 1932, p. 7; "Budget und Credit-Anstalt," *ibid.*, October 28, 1932, p. 99.

24. It is expected that 49 per cent of the shares of the reorganized Creditanstalt will be held by foreign creditors, and 51 per cent by the Austrian government.

25. Walther Federn, "Credit-Anstalt-Regelung," *Der oesterreichische Volkswirt*, November 19, 1932, p. 181; "Credit-Anstalt Sanierung?" *Der deutsche Volkswirt*, November 25, 1932, p. 223; *The Economist* (London), November 26, 1932, p. 984.

27. "Der Aussenhandel der Donaustaaten," *Frankfurter Zeitung*, April 15, 1932.

28. League of Nations, *Financial Position of Austria in the Second Quarter of 1932*, cited, p. 17. The following table shows the comparative value of Austrian foreign trade during the first six months of 1931 and 1932:

	Exports	*Imports* (*in schillings*)	*Excess of Imports*
1931	670,200,000	1,106,100,000	435,900,000
1932	390,000,000	758,600,000	368,600,000

Ibid., p. 37.

29. For a discussion of import prohibitions affecting agricultural and industrial products, cf. p. 258-9.

30. League of Nations, Commission of Enquiry for European Union, *Report by the Stresa Conference*, cited, p. 31. These figures were originally given in Swiss francs and converted into dollars at the rate of 19.22¼ cents.

31. League of Nations, *Financial Position of Austria in the Last Quarter of 1931*, cited, p. 10. The first decree, published on October 9, 1931, was found not to have been sufficiently drastic, and was supplemented by decrees issued on October 16, November 18 and December 23, 1931.

32. Cf. p. 257, footnote 6.

33. League of Nations, *Financial Position of Austria in the First Quarter of 1932*, cited, p.12-13; *The Economist* (London), October 17, 1931, p. 710; *Ibid.*, October 24, 1931, p. 758. Of the total foreign exchange allocated by the Austrian National Bank during the period October 10, 1931 (when exchange re-

Both government control of foreign exchange and official quotation of the schilling at a fictitious rate were attacked by Austrian industrialists and economists on the ground that they seriously hampered exports. The government was urged to abolish exchange restrictions without waiting for parallel action by Austria's neighbors, and to stabilize the schilling at its depreciated value.[34] Similar recommendations were made in the Lausanne protocol of July 15, 1932 which, as a condition of an international loan to Austria, provided that

> "Austrian monetary policy will aim at the abolition as soon as possible, subject to the necessary safeguards, of the difference between the internal and external value of the schilling, and, in consequence, at the progressive removal of the existing control over exchange transactions and the resulting obstructions to international trade."[35]

The exigencies of foreign trade have in practice necessitated almost total abandonment of foreign exchange control. The National Bank now authorizes settlement of all export transactions by two methods: (1) private clearings, under which Austrian exporters sell foreign exchange directly to Austrian importers at a premium of 23 per cent above the official quotation of the schilling;[36] and (2) private compensation agreements, by which Austrian exporters agree to accept schillings from their debtors instead of the prescribed foreign currency. The compensation principle has also been embodied in a number of clearing agreements which Austria has concluded with neighboring countries during the past year. Thus the Austro-Rumanian clearing agreement, which went into effect in July 1932, provides that balances of Austrian schillings held by Rumanians may be applied to the payment of Austrian exports and other debts if the Austrian creditor agrees to this procedure, and similar transactions are permitted with balances of Rumanian lei held in Austria.[37]

These clearing agreements, designed to maintain the volume of Austrian exports, which now constitute practically the only source of foreign exchange, while reducing imports to a minimum, have for the most part proved unworkable and may soon be abandoned. No attempt is made in these agreements to distinguish between various categories of imports, and it has consequently been almost impossible to bar imports considered unnecessary. Many Austrian exporters, moreover, have been reluctant to accept schillings instead of the foreign exchange which they either need for the purchase of raw materials abroad or wish to sell at a premium to importers.[38] The Austro-Hungarian agreement is the only one which has functioned with any degree of success, chiefly because the currencies of the two countries have been at a somewhat corresponding discount.[39] Short-lived agreements with individual countries, permitting importation of specified contingents of goods or providing for clearing arrangements have increased rather than alleviated the disorganization wrought in Austria's foreign trade by import prohibitions and foreign exchange restrictions. The uncertainty created by these agreements, which in many cases have been arbitrarily superimposed on the existing system of long-term commercial treaties, has had a paralyzing effect on Austrian merchants. It is hoped that private clearings will gradually eliminate the existing confusion and revive foreign trade, thereby improving the position of the schilling, which at present is officially quoted at a rate 23 per cent lower than that used in private clearings. While the Austrian National Bank is reported to favor stabilization of the schilling in the near future, the government fears that such a measure would undermine the confidence of the population, which vividly recalls post-war inflation.

THE TRANSFER MORATORIUM

The shortage of foreign exchange not only forced curtailment of imports, but made it increasingly difficult for Austria to pay interest on its foreign debt, the amount and character of which are shown by the following table:

AUSTRIA'S FOREIGN DEBT, 1932[40]

Public Debt	
Long-term	$223,400,000
Short-term	14,000,000
Private Debt	
Long-term	101,900,000
Short-term	126,500,000
Total	$465,800,000

Of Austria's long-term public foreign debt, over three-quarters has been contracted in the United States and Great Britain.[41]

---

strictions went into effect) to July 23, 1932 (when the transfer moratorium was established), 232,500,000 schillings went for commercial purposes and 199,900,000 for loan service and other payments of the state and provinces. *Financial Position of Austria in the First Quarter of 1932*, cited, p. 9.

34. Julius Meinl, *The World Crisis and Currency Restrictions* (London, Hazell, Watson and Viney, 1932); Oscar Morgenstern, "Die Angleichung von innerem und ausserem Geldwert," *Wiener Wirtschafts-Woche,* August 1, 1932; *ibid.*, "Der Weg zu freier Schilling-Kursgestaltung," *Neues Wiener Tagblatt,* September 10, 1932.

35. League of Nations, *Austrian Protocol,* C.539.M.270., Geneva, July 15, 1932, p. 2. For a discussion of the Lausanne loan, cf. p. 262.

36. *The Economist* (London), November 26, 1932, p. 983.

37. League of Nations, *Financial Position of Austria in the Second Quarter of 1932*, cited, p. 14. Austria has concluded clearing agreements, differing somewhat in their terms, with Czechoslovakia, France, Germany, Hungary, Italy, Yugoslavia, the Netherlands, Sweden and Switzerland. For a summary of some of these agreements, cf. *ibid.*, p. 15-17.

38. League of Nations, *Financial Position of Austria in the First Quarter of 1932*, cited, p. 12.

39. *Idem., Financial Position of Austria in the Second Quarter of 1932*, cited, p. 16; *idem., Report by the Stresa Conference,* cited, p. 9.

40. League of Nations, *Report by the Stresa Conference,* cited, p. 7. Cf. p. 260, footnote 30.

41. *Wochenbericht des Instituts für Konjukturforschung* (Berlin), May 25, 1932, p. 30.

It has been estimated that service on foreign debts for 1931-1932 would have required transfer of 277,300,000 schillings.[41a] As a result of the decline in exports, however, Austria not only failed to accumulate the necessary foreign exchange, but suffered an average monthly foreign exchange deficit of 18,000,000 schillings during the first six months of 1932.[42] In a note of May 9 the Austrian government consequently requested the advice of the League Financial Committee with regard to the continuance of foreign debt service. Failing to receive an answer, Austria on June 23 suspended transfer of payments due at the end of that month, including service of the 1923 Reconstruction loan[43] and the 1930 loan granted by the Bank for International Settlements.[44] An attempt to regularize this situation was made by a decree of July 15, which provided that when foreign debt payments fall due, the Austrian debtors shall deposit an equivalent amount of schillings, at a rate fixed by the Austrian National Bank, in a special fund established with the bank for this purpose. The sums so deposited are credited to the depositor in a "blocked" account and, under certain conditions, may be used for the benefit of the creditors. No penalty, however, is provided for non-fulfilment of the provisions of this decree, and the creditors can take no proceedings against the debtors. If the debtor arranges with the creditor for the discharge of his liability in schillings, he is released from the obligation to deposit funds with the National Bank.[45]

The fact that the 1932 loan, floated under the auspices of the League of Nations, was not excepted from the transfer moratorium, aroused considerable criticism abroad. This loan had been guaranteed by eight states,[46] and the amounts required for its service had been made a first charge on the gross receipts of the Austrian customs and the tobacco monopoly.[47] The amount required for service of the 1923 loan was estimated at 102,020,000 schillings in 1932, or 16.83 per cent of the customs and the tobacco monopoly revenue for that year.[48] Until June 1932 the Austrian government had deposited the total assigned revenue to the account of the loan's trustees[49] in the National Bank, and out of these funds had purchased each month the foreign exchange needed for service of the loan, using the balance for interest due on the 1930 loan and for internal expenditures. Following the establishment of the transfer moratorium, the government discontinued this practice: of 90,200,000 schillings representing the total customs and tobacco receipts for June and July, only 23,400,000 were paid into the trustees' account, the balance being withheld for payment of salaries and pensions.[50] The government apparently feared that, should the pledged revenues be deposited in full, the trustees, finding it practically impossible to purchase foreign exchange owing to exchange restrictions, would hold the total revenues until the transfer moratorium is abandoned, thus preventing Austria from meeting many internal obligations. While funds already in the hands of the trustees were sufficient to meet payments due in December 1932, the guarantor states may be faced with the necessity of paying further service of the loan out of their own resources, unless Austria can meanwhile deposit the necessary sums and resume transfer operations.

Resumption of transfers at the earliest possible date is urged by the representative of the League Financial Committee in Vienna, who states that the financial reputation of the 1932 loan may otherwise be impaired, and the value of future League loans correspondingly diminished. He argues, moreover, that the longer Austria delays transfers, the more difficult it will be to liquidate the arrears which have accumulated since July, and which totaled 135,900,000 schillings at the end of 1932.[51]

THE LAUSANNE LOAN

The Austrian government, however, believes that it can undertake no further transfers unless it receives substantial financial assistance from abroad. Some measure of assistance was extended by the Lausanne protocol, which the Council of the League of Nations approved on July 15, 1932, after the League Financial Committee had repeatedly described Austria's situation as "urgent."[52] By the terms of this protocol,[52a] Great Britain, France, Italy, Czechoslovakia, Belgium,

41a. League of Nations, *Financial Position of Austria in the Third Quarter of 1932,* C.780.M.368., Geneva, November 30, 1932, p. 15.

42. League of Nations, *Financial Position of Austria in the Second Quarter of 1932,* cited, p. 10.

43. The Austrian Guaranteed Reconstruction loan (also known as the League loan), due in 1943, was issued in 1923 at 7 per cent in the amount of approximately $126,000,000, of which $25,000,000 was marketed in the United States by J. P. Morgan & Co. Through sinking-fund operations, the loan as a whole has since been cut down to less than $100,000,000, and the American portion to about $17,000,000.

44. The Austrian Government International 7 per cent loan, due in 1957, was issued in 1930 in the amount of approximately $102,000,000, of which $25,000,000 was marketed in the United States by a syndicate headed by J. P. Morgan & Co. Through sinking-fund operations, the American portion of this loan has been cut down to $23,700,000.

45. For the text of the July 15, 1932 decree, cf. *ibid.,* p. 39.

46. Great Britain, France and Czechoslovakia each guaranteed 24.5 per cent of the loan, Italy 22.5 per cent, Belgium and Sweden 2 per cent each, and the Netherlands and Denmark 1 per cent each.

47. General Bond for the Austrian Government Guaranteed Loan 1923-1943, League of Nations, *The Financial Reconstruction of Austria, General Survey and Principal Documents* (Geneva, 1926), p. 154, 160.

48. League of Nations, *Financial Position of Austria in the First Quarter of 1932,* cited, p. 24.

49. The trustees of the 1923 loan are Messrs. Janssen, Wallenberg and Jay.

50. League of Nations, *Financial Position of Austria in the Second Quarter of 1932,* cited, p. 8-9.

51. Idem., *Financial Position of Austria in the Third Quarter of 1932,* cited, p. 10.

52. Cf. League of Nations, Financial Committee, *Report to the Council on the Work of the Forty-fifth Session of the Committee,* cited, p. 4.

52a. League of Nations, *The Austrian Protocol,* cited.

Holland and Switzerland[53] agreed to guarantee a new twenty-year loan which Austria is to obtain in foreign currencies, to the maximum amount of 300,000,000 schillings. This loan is to be secured by customs and tobacco receipts, subject to the prior claims of the 1923 and 1930 loans. The proceeds of the loan are to be credited to a special account in the Austrian National Bank, which the Austrian government is to administer in cooperation with the representative of the League Financial Committee.

The Lausanne loan, unlike that of 1923, is designed less to rehabilitate Austrian economy than to facilitate repayment of the country's most pressing financial obligations. The protocol provides that 100,000,000 schillings—the share of the loan to be guaranteed by Great Britain—shall be used to repay the advance made by the Bank of England in 1931, while the balance of the loan, converted into schillings, shall be set aside for repayment of the floating debt of the state and the Federal Railways. It is generally believed, however, that this balance will be applied to the payment of the 90,000,000 schilling credit granted by the Bank for International Settlements in 1931 and of arrears on foreign debts accumulated since July 1932, so that little or no money will actually be left for liquidation of Austria's internal indebtedness.[54]

The conditions attached to the Lausanne loan are more onerous than those of the loan granted in 1923. The Austrian government promises to restore and maintain the equilibrium of the federal budget by "further permanent economies"; to carry out "without delay" the program of reforms submitted in May 1932 by Dr. Herold, its Swiss railway adviser;[55] to adjust the value of the schilling and remove foreign exchange restrictions;[56] and to settle all outstanding questions concerning the Creditanstalt. Provincial and municipal budgets must also be balanced, and no private firms or individuals can incur foreign debts of more than 1,000,000 schillings without the permission of the Austrian National Bank.

Most humiliating of all for Austrian public opinion, the Lausanne protocol states that the new loan is granted on the basis of the Geneva protocol of 1922, in which Austria undertook to abstain from any negotiations or any economic engagement calculated to compromise its independence—thus prolonging until 1953 an obligation which, according to the Geneva instrument, would have been terminated in 1943. The Lausanne protocol, moreover, contains a clause which the Austrian press regards as unusually significant: all decisions adopted by the League Council in virtue of the protocol are to be taken by a majority vote, and any dispute as to its interpretation is to be settled by the Council in a similar manner.[57] This clause, according to Austrian commentators, not only prevents Germany from effectively opposing application of the protocol by withholding its vote, but removes interpretation of that instrument from the jurisdiction of the World Court, placing it definitely in the hands of the League Council, which is a political rather than a legal body.[58] When the Council aproved the Lausanne protocol on July 15 the German delegate abstained from voting, on the ground that the loan agreement was based on the Geneva protocol of 1922, and that his government, then not a member of the League of Nations, had not participated in the original agreement. He added that Germany was of the opinion that political conditions should not be attached to schemes for financial assistance.[59]

The relatively small amount of the loan, and the conditions on which it was granted, aroused vigorous criticism in Austria, especially on the part of Social Democrats and Pan-Germans. After prolonged and bitter debates, in which both the government and the opposition indulged in considerable logrolling, the Lausanne protocol was ratified by the lower house of the Austrian parliament on August 17 by a vote of 81 to 80.[60] Rejected by the upper house two days later, the protocol was once more approved in the lower house on August 23, after the leader of the Pan-German party had accused the government of "selling Austria into slavery to France."[61] Ratification, however, was granted only on condition that certain points of the protocol, notably the clause regarding majority vote by the League Council, should be clarified in subsequent negotiations, and that the protocol should then be re-submitted to parliament. Before the Lausanne agreement can go into effect, it must also be ratified by the parliaments of the guarantor states.

The terms of the Lausanne protocol have once more emphasized Austria's dependence

53. The Lausanne protocol is open to adhesion by other states; Sweden, Denmark and Spain have expressed a desire to participate in the Lausanne loan.

54. Cf. Franz Klein, "Oesterreich umsonst," *Der deutsche Volkswirt*, July 22, 1932, p. 1418.

55. Cf. p. 265.

56. Cf. p. 261.

57. The Geneva Protocols No. II and III which provided for the extension of the 1923 loan stated that, in the event of any difference as to their interpretation, "the parties will accept the opinion of the Council of the League of Nations." It was generally understood that any decision adopted by the League Council under the terms of these protocols would require unanimity.

58. Klein, "Oesterreich umsonst," cited.

59. *Journal de Genève*, July 17, 1932; "Les Travaux de Genève," *Le Temps* (Paris), July 17, 1932.

60. *New York Times* and *New York Herald Tribune*, August 18, 1932. For a detailed account of the debates, cf. *Neue Freie Presse* (Vienna).

61. *New York Times*, August 24, 1932. The Austrian Parliament consists of two houses—the *Nationalrat* (lower house) and the *Bundesrat* (upper house). According to the Austrian constitution, a measure approved by the *Nationalrat* but rejected by the *Bundesrat* must be re-submitted to the former, and becomes law if approved a second time.

on foreign assistance. The Austrians, who before the war lived to a large extent at the expense of other nationalities in the Hapsburg empire, have found it difficult to adjust themselves to the situation created by the treaty of Saint-Germain. Divided on many other issues, they are unanimous in attributing their present plight to the peace settlement, and argue that the powers which imposed this settlement are bound to make adequate provision for Austria's existence.

Instead of undertaking thoroughgoing reforms, the Austrian government has consequently acquired the habit of appealing to the League of Nations for aid and advice in moments of crisis. As Austria has assumed fresh political and economic obligations in return for financial assistance, it has been forced to accept a growing measure of foreign supervision, with the result that it now has as many foreign advisers as a backward Oriental country—including a League representative, M. Rost van Tonningen, at the Ministry of Finance;[62] a Belgian adviser, M. Frére, in the National Bank;[63] a Dutch adviser, Dr. van Hengel, in the Creditanstalt;[64] and a Swiss adviser, Dr. Herold, for the Federal Railways.[65] These advisers, all paid by the Austrian government, are charged with the task of recommending reforms designed to effect economies in their respective fields. Their work, however, is seriously hampered by the fact that the government is reluctant to assume responsibility for unpopular reforms, such as reduction of unemployment benefits. Furthermore, it is charged, that the advisers are more interested in satisfying the demands of Austria's foreign creditors than in rehabilitating the country's economy, and the high salaries which they receive have been the object of bitter attack.[66] These criticisms furnish fuel to the Austrian nationalists, who advocate repudiation of all foreign indebtedness and termination of Austria's financial "slavery."

THE FEDERAL BUDGET

Responsible Austrian leaders, however, realize that certain reforms are imperative if the country is to escape bankruptcy. The most pressing internal problem has been that of the federal budget, which in 1931 closed with a deficit of over 300,000,000 schillings, but which the government hopes to balance in 1932 by effecting various "permanent economies."[67] These economies, in the opinion both of foreign advisers and of many Austrian experts, may best be effected by a reform of unemployment insurance and a reorganization of the Federal Railways, which are regarded as the principal drains on the budget.

Unemployment, a chronic phenomenon in Austria since the war, has risen steeply during the past two years, and in the winter of 1931 it was estimated that every twelfth Austrian was out of work, with nearly 400,000 receiving unemployment benefits, while some 16,000 were thrown entirely on their own resources.[68] Contributions by workers and employers have not been sufficient to meet the mounting cost of unemployment benefits,[69] with the result that the federal government has been obliged to cover the deficit in 1931-1932 by advances which total 126,500,000 schillings, and which will be met by a "crisis" supplement to the sales tax. Downward revision of unemployment benefits, which now range from 14 to 21 schillings a week, has been advocated as the only method of checking this increase in federal expenditure. The Social Democrats, however, oppose any reduction in unemployment benefits, the cost of which, in their opinion, should be covered by an increase in the income tax and a cut in army and police appropriations.[70] Reduction at the present time, moreover, would prove particularly onerous for the unemployed, as the cost of living has risen steadily owing to import restrictions. Nor do public works or settlement of the unemployed in agricultural communities offer a solution of unemployment, in view of Austria's lack of capital and the scarcity of unused arable land.

The situation of the Federal Railways is also alarming. The railways show an annual deficit, which in 1931 amounted to 83,100,000 schillings, and which must be met by the state. This deficit is due only in part to the decline in traffic receipts. The chief difficulties may be traced to two causes—inefficient and bureaucratic administration, in-

62. M. van Tonningen, who serves as a representative of the League Financial Committee, was appointed in September 1931, following an inquiry by the Committee into Austria's financial situation. League of Nations, *Financial Position of Austria in the Last Quarter of 1931*, cited, p. 2. He is responsible to the League Council, which may remove him. The expenses of the representative and of his office must be approved by the Council and defrayed by Austria. League of Nations, *The Austrian Protocol*, cited, Annex III, p. 6.

63. By Article 7 of the Lausanne protocol, the Austrian government undertook to request the League Council for the nomination of an adviser to the National Bank, and the Council named M. Frére for that post on July 15, 1932. The bank adviser, like the League representative, is responsible to and removable by the Council, which may terminate his appointment when it decides that his services are no longer required. League of Nations, *The Austrian Protocol*, cited, Annex III, p. 6.

64. Cf. p. 259.

65. Dr. Herold was appointed adviser for the Federal Railways in January 1932, in accordance with the Austrian government's pledge, given the League of Nations in September 1931, to undertake railway reforms.

66. It is reported that, before assuming the office of general manager of the Creditanstalt, Dr. van Hengel demanded the conclusion of a three-year contract calling for an annual salary of $110,000 and payment of a retainer of $12,000 in gold bars.

67. *The Economist* (London), November 26, 1932, p. 983.

68. *The Economist* (London), February 3, 1932, p. 354; *Oesterreichisches Jahrbuch 1931*, Vienna, Mänzsche Verlags- und Universitäts Buchhandlung, 1932, p. 173.

69. Unemployment benefits are paid out of a fund, 50 per cent of which is normally contributed by employers and 50 per cent by workers and employees, the federal government furnishing only one-third of the cost of administering unemployment insurance.

70. Social Democratic Party, *Der Weg aus dem Elend* (Vienna, Volksbuchhandlung, 1931), p. 31.

volving unnecessary expenditure and red tape, and the high cost of pensions paid to employees whom the railways were forced to dismiss after the breakup of the Hapsburg empire. In a report presented in May 1932 Dr. Herold outlined a program of reforms which would transfer certain financial burdens from the budget of the railways to state and local budgets, and would reduce expenditure by methods ranging from the extension of the eight-hour day to savings in purchase of materials. The principal economies, however, would be effected by a further reduction of the staff and a decrease in pensions.[71] While the Austrian government, by the Lausanne protocol, is pledged to carry out this program "without delay," the Social Democrats oppose any measures which threaten to increase unemployment or lower the standard of living of railway workers.

THE POLITICAL OUTLOOK

All efforts at internal reform are seriously hampered by the political deadlock which has existed in Austria since the war.[72] Power is almost evenly divided between the conservative and Catholic Christian Socialists, entrenched in the provinces, who dominate the federal government where they represent the interests of the peasants and the "big bourgeoisie," and the Social Democrats, who rule Vienna, and whose adherents are principally workers and intellectuals.[73] A varying degree of influence is exercised by other political groups—the Pan-Germans, who recruit their followers among civil employees and the provincial bourgeoisie, and devote their efforts to the cause of Austro-German union; the Economic party formed by the late Dr. Schober, which rallies moderate bourgeois elements opposed to reaction; the *Landbund,* a peasant group interested solely in the advancement of agriculture; and the *Heimatbund,* organized in 1930, which represents the *Heimwehr,* a reactionary bourgeois militia financed by big industry, commerce and banking, and reported to be on good terms with the German *Stahlhelm.* The real struggle, nevertheless, has been waged between the bourgeois state and socialism, between the provinces and "Red Vienna," which contains nearly one-third of the country's population.

Recently, however, the power of both Christian Socialists and Social Democrats has been challenged by Hitlerism, which threatens to absorb the smaller conservative parties. The Austrian Hitlerites, as yet unrepresented in the lower house of Parliament, made striking gains in the provincial elections of April 24, 1932,[75] and are rapidly winning the support of the lower bourgeoisie and the unemployed youth of all classes. The Hitlerite program, which is even vaguer and more heterogeneous than that of the German Nazis, is bitterly anti-Semitic and is directed primarily against socialism. The three-cornered struggle between Christian Socialists, Social Democrats and Hitlerites, which is expected to play a decisive part in the next parliamentary elections, is all the more serious because of the existence of three party militias—the *Heimwehr,* the Socialist *Schutzbund* and the Hitlerite *Heimatschutz,* which have already engaged in occasional clashes. Many observers believe that Hitlerite success at the polls might temporarily unite Christian Socialists and Social Democrats in a coalition government, such as existed in the early days of the republic,[76] and might facilitate concerted action on some of the country's pressing problems. The divergent policies of the two parties, however, make such a coalition problematical.

The Christian Socialists have on the whole supported the Austrian republic as established by the constitution of 1920, and have given little open encouragement to Hapsburg restoration. By subsidies and tariff measures they have vigorously encouraged agriculture, often at the expense of industry. With the aid of the smaller conservative groups, the Christian Socialists have succeeded in controlling every cabinet since 1921. The fact that the party has tolerated, if not actually supported, the activities of the reactionary *Heimwehr,* however, has recently alienated its moderate elements, and the Christian Socialists must now decide whether they will continue to exist as a bourgeois party, or will outbid the Hitlerites by definitely swinging over to reaction. The death in August 1932 of Mgr. Ignaz Seipel, the most distinguished figure in Austria's postwar politics, deprived the party of leadership at a critical moment. Dr. Victor Kienboeck, an authority on financial matters, who was appointed president of the Austrian National Bank in February 1932, has been prominently mentioned as Mgr. Seipel's suc-

71. League of Nations, *Financial Position of Austria in the Second Quarter of 1932,* cited, p. 3 and 5-7.

72. For works on Austria's political history, cf. Otto Bauer, *Die oesterreichische Revolution* (Vienna, Volksbuchhandlung, 1923); Malbone W. Graham, *New Governments of Central Europe* (New York, Holt, 1923); Charles Eisenmann, *Dix ans d'Histoire Constitutionelle Autrichienne* (Paris, Giard, 1928); B. Mirkine-Guetzevich and André Tibal, *L'Autriche* (Paris, Delagrave, 1932).

73. Of 165 deputies elected in November 1930 to the lower house of the Austrian Parliament, 72 were Social Democrats, 66 were Christian Socialists, 10 belonged to the Economic party (including 8 Pan-Germans), 8 to the *Heimatbund,* and 9 to the *Landbund.* Guetzevich and Tibal, *L'Autriche,* cited, p. 57.

75. *New York Times,* May 1, 1932.

76. The Renner cabinet (February 1919-June 1920) consisted of 6 Social Democrats, 5 Christian Socialists and 4 non-party members, while the Mayr cabinet (October 1920-June 1921) was composed of 6 Social Democrats, 7 Christian Socialists and one Pan-German. Guetzevich and Tibal, *L'Autriche,* cited, p. 7 and 11.

cessor. While Dr. Kienboeck commands general respect, many observers believe that he lacks the political experience necessary to unite the party on a workable program.

The Social Democrats, led by Otto Bauer and Karl Renner, are perhaps the most radical and active socialist party in Europe. The Social Democratic program, which advocates gradual socialization to be effected by legal means, is frankly opposed to communism, and has been described as Austro-Marxism. By their achievements in housing and social welfare, the Social Democrats have won tangible advantages for the workers without as yet resorting to revolutionary tactics or thoroughgoing socialization. The prospects of the Social Democrats, however, are distinctly limited by the fact that they enjoy little following outside of Vienna and other industrial centers, and have as yet failed to win the support of the peasants.

HAS AUSTRIA A FUTURE?

Even if the Social Democrats, considered by many observers the ablest party in Austria, should eventually gain control of the federal government, it is doubtful that they could materially improve the economic situation unless the country's natural resources are increased or its foreign markets expanded. The world crisis, by creating fresh obstacles to Austrian trade, has strengthened the conviction that Austria is unable to exist as an independent economic unit, and that only a customs union with one or more states offers a chance of survival. No agreement has been reached, however, as to the states with which it would be desirable to conclude such a union. While Austrian economists almost unanimously believe that salvation can be achieved only by union with Germany, the fiasco of the Vienna protocol and the conditions attached to the Lausanne loan preclude this development in the near future. Moreover, while both Christian Socialists and Social Democrats continue to pay lip-service to Austro-German collaboration, they feel little enthusiasm for economic rapprochement with the Reich as long as nationalism and Fascism are in the ascendant in Germany.

The French plan for a Danubian union has met with scant sympathy in Austria, where it is regarded as an impracticable scheme devised solely to consolidate France's political control over Central and Eastern Europe. Austrian economists argue that the relative importance of inter-Danubian trade has steadily declined since 1923, owing largely to the disastrous effect of the commercial policies followed by the Danubian countries and to the far-reaching agrarian crisis, and that a preferential system, such as that proposed by France, would not alleviate the situation unless agricultural prices rise, and trade and exchange restrictions are abandoned.[77]

The solution of Austria's economic difficulties which has won most favor among Austrian industrialists and business men is the formation of an industrial middle-European bloc composed of Germany, Austria and possibly Czechoslovakia, which could trade on a preferential basis with an agrarian bloc consisting of Hungary, Rumania and Yugoslavia. This proposal, which has many adherents in Germany, is supported by the argument that German trade with the Danubian countries has made striking gains since 1924,[78] and that only a preferential system which includes Germany would bring real improvement in the Danubian region.[79] The formation of an industrial *Mitteleuropa*, however, is at present hampered by France's opposition to German participation in any tariff arrangement with Austria. Yet France can offer Austria no tangible inducements to abandon its orientation toward Germany, as it takes less than three per cent of Austrian exports, and has been reluctant to lend Austria money without political conditions and international guarantee.

Under the circumstances, Austria's future does not lend itself to happy augury. The limitation of its natural resources and its peculiar dependence on foreign trade must block recovery as long as Europe remains shackled by tariffs and exchange restrictions. Nor can foreign loans, which merely postpone the inevitable reckoning, offer a sound solution of its problems. Revision of the peace treaties, which might perhaps enlarge Austria's internal market, is not only impracticable in a period of sharpened nationalism, but perhaps even undesirable. Economic self-sufficiency, while not inconceivable as a last resort, could be achieved only by reducing the Austrian standard of living below the subsistence level. Austria's only hope is that its principal customers will be driven by sheer necessity to readjust their tariffs and abandon exchange restrictions, and that Vienna may then again become the middleman of Central and Eastern Europe—a function for which it is admirably equipped by its geographical position.

77. Cf. also "The Danubian Problem," *The Economist* (London), May 14, 1932, p. 1061.

78. "The Danubian Problem. II. The Effect of Preferences," *ibid.*, May 21, 1932, p. 1122.

79. G. E. R. Gedye, "The French Schemes for Danubian Europe," *The Contemporary Review*, May 1932, p. 560.